

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /101 W

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R 181714Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2203

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 BONN 13372

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: BUNDESBANK VICE PRESIDENT EMMINGER ON
INTERNATIONAL MONETARY REFORM

1. ACCORDING TO NEWS REPORTS, BUNDESBANK VICE PRESIDENT
EMMINGER ON AUGUST 18 MADE THE FOLLOWING POINTS ON
INTERNATIONAL MONETARY REFORM IN AN INTERVIEW WITH
VWD (A GERMAN ECONOMIC NEWS SERVICE).

(A) BOTH THE QUESTION OF IMF QUOTAS AND OF GOLD
ARE "RIPE FOR DECISION" AT THIS YEAR'S IMF ANNUAL
MEETING.

(B) THE QUESTION OF THE FUTURE EXCHANGE RATE
REGIME IS NOT YET RIPE FOR DECISION, DIFFERENCES
BETWEEN THE UNITED STATES AND FRANCE WILL PROBABLY
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HAVE TO BE RESERVED FOR DISCUSSION AT THE MONETARY

SUMMIT OF CHIEFS OF GOVERNMENT.

(C) THE GERMAN SIDE HAS AGREED TO THE GENERAL DECLARATION ACCORDING TO WHICH THE GOAL OF MONETARY REFORM SHOULD BE AS STABLE AS POSSIBLE A SYSTEM OF EXCHANGE RATES. TO ACHIEVE THIS GOAL, IT IS OF GREATER IMPORTANCE, HOWEVER, THAT ALL IMPORTANT MEMBER COUNTRIES PURSUE STABILITY-ORIENTED ECONOMIC POLICIES THAN TO FIND PARTICULAR FORMULATIONS FOR THE IMF ARTICLES OF AGREEMENT. FIXED EXCHANGE RATES CAN BE MAINTAINED ONLY AMONG STATES BETWEEN WHICH THERE ARE NO DISTURBING DIFFERENCES IN INFLATION RATES. THE FEDERAL REPUBLIC FAVORS A PRAGMATIC APPROACH OF STEP-BY-STEP EXPANSION OF THE EUROPEAN EXCHANGE RATE COMMUNITY AND SUFFICIENT CONTROL OF THE FOREIGN EXCHANGE MARKETS TO MAINTAIN ORDERLY MARKET CONDITIONS VIS-A-VIS OTHER CURRENCIES. IT WILL BE NECESSARY, AMONG OTHER THINGS, TO HAVE BETTER CONTROL OVER MONIES MOVING AROUND ON THE INTERNATIONAL MONEY MARKETS BEFORE ONE COULD MOVE TO A WORLDWIDE SYSTEM OF FIXED EXCHANGE RATES INCLUDING THE US DOLLAR.

(D) ACCORDING TO EMMINGER, THE MORE IMPORTANT PRINCIPLES CONCERNING GOLD ARE ALREADY AGREED WITHIN THE IMF. THE ROLE OF GOLD IN INTERNATIONAL MONETARY SYSTEM SHALL BE GRADUALLY REDUCED AND THAT OF THE SDR'S STRENGTHENED. IN THIS CONNECTION IT IS A "DECIDED THING" THAT THE OFFICIAL PRICE OF GOLD SHALL BE FINALLY ABOLISHED IN WASHINGTON (I.E., AT THE IMF MEETING). IN PRINCIPLE, CENTRAL BANKS SHALL BE FREE TO SELL AND BUY GOLD AT WHATEVER PRICES THEY DESIRE, BUT AN ATTEMPT WILL BE MADE TO REACH A VOLUNTARY AGREEMENT AMONG CENTRAL BANKS WHICH WILL ENSURE THAT FOR A TRANSITION PERIOD OF SEVERAL YEARS THE TOTAL VALUE OF MONETARY GOLD IN THE WORLD WILL NOT INCREASE. IN OTHER WORDS,

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CENTRAL BANKS WOULD BE ALLOWED TO BUY GOLD ON THE FREE MARKET ONLY TO THE EXTENT THAT PREVIOUSLY CENTRAL BANK GOLD HAS FLOWN INTO THE FREE MARKETS. FINALLY, THE IMF HOLDINGS OF GOLD SHALL BE REDUCED BY ROUGHLY \$6.5 BILLION (AT THE PRESENT OFFICIAL PRICE) IN PART BY RETURNING IT AT THE OFFICIAL PRICE TO MEMBER GOVERNMENTS AND IN PART BY SELLING IT ON THE FREE MARKET AND USING THE PROCEEDS FOR LDC'S (FOR EXAMPLE, FOR INTEREST SUBSIDIES). THE MEMBERS SHALL DECIDE BY A QUALIFIED MAJORITY AT A LATTER DATE WHAT TO DO WITH THE GOLD REMAINING IN THE IMF.

(E) THERE IS AGREEMENT THAT IMF QUOTAS SHALL BE INCREASED BY ABOUT ONE-THIRD. WHILE COMPLETE AGREEMENT HAS NOT YET BEEN REACHED HOW THE QUOTAS SHALL BE DIVIDED, THERE IS A GENERAL INTEREST IN DOUBLING THE QUOTA OF OIL-PRODUCING COUNTRIES SO THAT THEY COULD CONTRIBUTE MORE TO THE FINANCING OF THE IMF.

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2. COMMENT: EMMINGER IN THIS INTERVIEW, IF ACCURATELY REPORTED, CONSIDERABLY SOFTENS HIS PREVIOUS POSITION THAT FIXED RATES BETWEEN THE DOLLAR AND THE EC SNAKE ARE OUT OF THE QUESTION FOR THE FORESEEABLE FUTURE. BUT THIS CHANGE FOR EMMINGER IS PROBABLY MORE ONE OF PRESENTATION RATHER THAN SUBSTANCE IN ORDER TO AVOID DIRECT CONTRADICTION WITH OTHERS MORE IN FAVOR OF FIXED RATES.
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